

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00
OMB-01 XMB-02 OPIC-03 SIL-01 /092 W
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R 141547Z APR 77
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TO SECSTATE WASHDC 5665
USMISSION EC BRUSSELS

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E.O. 11652: N/A
TAGS: EEC, PFOR, CY
SUBJECT: GOC VIEWS OF EC-CYPRUS RELATIONS

REF: (A) LONDON 3264; (B) EC BRUSSELS 2281

THIS CABLE PRESENTS CURRENT GOC THINKING ON ITS RELATIONS WITH
THE EUROPEAN COMMUNITY.

1. SUMMARY: GOC AND EC SIGNED ASSOCIATION AGREEMENT AND
SUPPLEMENTARY PROTOCOL ON DEC 19, 1972 WHICH CAME INTO FORCE
JUNE 1, 1973. AGREEMENT ENVISAGES TWO STAGES OF THE ASSOCIATION
WITH THE FIRST STAGE TO EXPIRE JUNE 30, 1977 AND THE SECOND
STAGE TO LAST IN PRINCIPLE FIVE YEARS; NEGOTIATIONS FOR THE
SECOND STAGE WERE TO START 18 MONTHS PRIOR TO THE EXPIRATION
OF THE FIRST STAGE. THE OBJECT OF THE SECOND STAGE IS TO
COMPLETE THE RECIPROCAL ELIMINATION OF ALL TARIFFS, CREATING
A CUSTOMS UNION WITH FREE MOVEMENT OF GOODS. BEFORE MEDITER-
RANEAN COUNTRIES CAN NEGOTIATE A SECOND STAGE, NORMAL EC
PRACTICE CALLS FOR A MEDITERRANEAN POLICY AGREEMENT TO BE
WORKED OUT WITH EACH COUNTRY. THE GOC HAS GONE TO BRUS-
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SELS SEVERAL TIME SINCE 1974 WAR ON THIS MATTER BUT THE
EC COUNCIL OF MINISTERS HAS NOT TO DATE ISSUED THE REQUIRED
MANDATE AUTHORIZING THE EXECUTIVE COMMISSION TO NEGOTIATE
A MEDITERRANEAN POLICY AGREEMENT WITH CYPRUS. THE GOC
ATTRIBUTES EC'S RELUCTANCE TO NEGOTIATE MEDITERRANEAN
POLICY TO POLITICAL MOTIVES. PRESENTLY GOC HOPES FOR A
CONTINUATION OF THE FIRST STAGE BUT WITH SEVERAL

CHANGES, INCLUDING CONCESSIONS ON CYPRIOT AGRICULTURAL PRODUCTS TO OFFSET THE LOSS OF THE IMPORTANT COMMONWEALTH AGRICULTURAL PREFERENCES WHICH ARE ALSO SCHEDULED TO EXPIRE ON JUNE 30, 1977. END SUMMARY

2. ECONOMIC CONSIDERATIONS:

FOR CYPRUS THE FIRST STAGE OF ASSOCIATION HAS NOT BEEN BENEFICIAL, EXCEPT IN PRESERVING CYPRUS' COMMONWEALTH PREFERENCE FOR CERTAIN EXPORTS TO THE U.K. SPECIAL EC TARIFFS ON CITRUS AND CAROB HAVE NOT BEEN SIGNIFICANT AS THE 1974 WAR RESULTED IN THE LOSS TO THE GOC OF MOST CYPRIOT CITRUS AREAS. THE EC 70 PERCENT TARIFF REDUCTION ON CYPRUS INDUSTRIAL GOODS HAS BEEN NO REAL ADVANTAGE FOR TWO REASONS: (A) THE STRICT REQUIREMENTS FOR 100 PERCENT DOMESTIC ORIGIN MAKE THE EC CONCESSION ALMOST IRRELEVANT AS CYPRUS HAS TO IMPORT MOST RAW MATERIALS, AND (B) CYPRIOT MANUFACTURED GOODS ARE MAINLY MARKETING IN THE MIDDLE EAST. FOR THE PRESENT 70 PERCENT REDUCTION OF EC TARIFFS TO MAKE AN IMPACT, CYPRUS WOULD NEED A CHANGE IN THE RULES OF ORIGIN, I.E., ITS MANUFACTURED PRODUCTS WOULD REQUIRE TWO CHANGES OF TARIFF CLASSES, NOT ONE AS IS THE PRESENT CASE.

3. MEDITERRANEAN POLICY:

BEFORE A SECOND STAGE CAN BE NEGOTIATED WITH COUNTRIES IN CYPRUS CATEGORY USUAL EC PRACTICE IS TO WORK OUT A MEDITERRANEAN POLICY AGREEMENT SIMILAR TO THOSE WITH MOROCCO, ALGERIA, TUNISIA, EGYPT, ISRAEL. SUCH AGREEMENTS TRADITIONALLY GRANT SPECIAL CONCESSIONS FOR AGRICULTURAL PRODUCTS, RELAX RULES OF ORIGIN, PROVIDE TECHNICAL AND LIMITED OFFICIAL USE

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FINANCIAL AID, ETC. THEY ARE DESIGNED TO HELP THE ECONOMY OF THE ASSOCIATION MEMBER TO PREPARE TO ENTER THE EC CUSTOMS UNION. WHILE THE EC EXECUTIVE COMMISSION HAS ALREADY RECOMMENDED AN AID PACKAGE FOR CYPRUS (20-30 MUA), THE COUNCIL OF MINISTERS HAS YET TO ISSUE THE REQUIRED MANDATE TO NEGOTIATE. GOC BELIEVES EC'S RELUCTANCE TO MOVE ON THE MEDITERRANEAN POLICY DOCUMENT IS POLITICAL, REFLECTING THE EC'S RELUCTANCE TO MOVE BEYOND THE FIRST STAGE WHILE THE CYPRUS PROBLEM IS STILL UNSETTLED.

4. RECENT EC-CYPRUS DISCUSSIONS:

GOC FEELS IT HAS NOW DONE EVERYTHING IN ITS POWER TO MOVE FORWARD TO NEGOTIATE THE MEDITERRANEAN POLICY WITHIN THE MANDATORY 18 MONTHS PERIOD CALLED FOR IN THE ASSOCIATION AGREEMENT. THE GOC BLAMES THE EC FOR NOT ISSUING THE MANDATE TO NEGOTIATE. THERE IS NOW NOT ENOUGH TIME TO NEGOTIATE A MEDITERRANEAN POLICY AGREEMENT BEFORE THE END OF THE FIRST STAGE ON JUNE 30, 1977 EVEN IF THE MANDATE WERE ISSUED. AT THIS POINT THE MOST THE GOC CAN HOPE FOR IS AN EXTENSION OF THE FIRST

STAGE FOR THREE YEARS. IN CONJUNCTION WITH SUCH AN
EXTENSION CYPRUS SEEKS (A) CLEARER INDICATIONS OF EC
WILLINGNESS TO NEGOTIATE A MEDITERRANEAN POLICY; (B)
RELAXATION OF THE RULES OF ORIGIN; AND (C) FINANCIAL AND
TECHNICAL AID. THE EC FOR ITS PART HAS ASKED FOR AN
ADDITIONAL 10 PERCENT REDUCTION OF CYPRUS TARIFFS ON EC
GOODS AND PROPOSES TO ELIMINATE COMPLETELY EC IMPORT DUTIES
ON CYPRIOT INDUSTRIAL PRODUCTS WHILE KEEPING THE PRESENT
RULES OF ORIGIN. EC EXECUTIVE COMMISSION IN EARLY MARCH
RECOMMENDED AN EXTENSION OF FIRST STAGE ONLY TO 1979 AND

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INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04
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CALLED FOR CYPRUS TO AGREE IN PRINCIPLE TO GO AHEAD WITH A
STAGE TWO AGREEMENT. THE GOC IS RELUCTANT TO AGREE, EVEN IN
PRINCIPLE, AS THIS CARRIES WITH IT AN OBLIGATION, IN EFFECT,
TO MOVE INTO THE CUSTOMS UNION BY 1983. GOC BLAMES EC FOR
UNSYMPATHETIC, CAVALIER APPROACH TO CYRUS' SPECIAL SITUA-
TION. IN ADDITION, GOC OFFICIALS ARE RESENTFUL THAT EC
COUNCIL MEETING OF APR 5 IGNORED CYPRUS ALTOGETHER.
GOC FEARS THAT DEVELOPMENTS BETWEEN NOW AND JUNE 30, 1977
CAN ONLY FURTHER DISADVANTAGE CYPRUS AND THAT EC WILL MAKE
TWELFTH HOUR TAKE-IT-OR-LEAVE-IT OFFER ON JUNE 30, 1977 WHICH
GOC WILL NOT BE ABLE TO TURN DOWN WITHOUT JEOPARDIZING
POSSIBILITY OF FUTURE EC MEMBERSHIP. GOC RECOGNIZES, OF
COURSE, THAT TO DATE ASSOCIATION MEMBERSHIP HAS ONLY BEEN
BENEFICIAL FOR CYPRUS IN PERMITTING RETENTION OF SPECIAL
CONCESSIONS IN U.K. MARKET WHICH ARE DUE TO EXPIRE

JUNE 30 WHEN U.K. FINALLY ENTERS EC CUSTOMS UNION COMPLETELY.
AT MOST GOC HOPES THAT ANTICIPATED LAST MINUTE EC OFFER
WILL EXTEND FIRST STAGE, PROVIDE FOR SPECIAL QUOTAS FOR
CERTAIN PRODUCTS (POTATOES, ETC.); PROVIDE SPECIAL
CONSIDERATION FOR CYPRUS SHERRY (I.E., PERMIT IT TO BE
TREATED AS EXCEPTIONAL CASE, SAME WAY U.K. SHERRIES MAY BE
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TREATED); AND RELAX UNFAVORABLE RULES OF ORIGIN. GOC ALSO
WANTS - BUT DOES NOT EXPECT - EC COMMITMENT TO NEGOTIATING
MEDITERRANEAN POLICY AND RELEASE OF PART OR ALL OF AID
PACKAGE ALREADY EARMARKED FOR CYPRUS.
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